

City of Albuquerque P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

Interoffice Memorandum

June 3, 2003

Ref: 03-01-122F

To: Sandra Doyle, Director, Department of Finance and Administrative Services

From: Debra Yoshimura, Director, Office of Internal Audit

Subject: FOLLOW-UP REVIEW OF MANAGEMENT AUDIT NO. 01-122,

DEPARTMENT OF FINANCE AND ADMINISTRATIVE SERVICES, TREASURY DIVISION, BOND PROCEEDS TRACKING AND FINAL

DISPOSITION

The Office of Internal Audit completed a follow-up review of Management Audit Report No. 01-122, Department of Finance and Administrative Services, Treasury Division, Bond Proceeds Tracking and Final Disposition. The purpose of our review was to determine whether the audit recommendations had been implemented. We determined the following:

RECOMMENDATION NO. 1:

We determined that the Treasury Division charged the purchase of a bond structuring analysis software upgrade and the associated technical support agreement to bond issuance costs in FY01. The total cost of the purchase was \$18,683. The Treasury Division operating budget did not include funding for the software upgrade. As a result, the procurement was treated as a bond issuance cost and was paid from the interest earned on bond proceeds. Administrative Instruction No. 6-4 requires that purchases of computer hardware and software with a cost greater than \$1,000 be recorded to appropriate computer asset accounts. The software upgrade charged as a bond issuance expense has not been properly recorded as a City asset.

We recommended that DFAS include all of the Treasury Division's computer hardware and software needs, including upgrades, in its budget. All computer hardware and software purchases should be reviewed and approved in advance by the TRC. The computers and software purchased should be appropriately recorded as City assets. In addition, we recommended that the Treasury Division should notify ISD that the bond-tracking software was purchased and is being used, and that it should be recorded as a City asset.

ACTION TAKEN

This recommendation has not been implemented. DFAS management told us that the entry to book the bond structuring analysis software as an asset was never made.

FOLLOW-UP RECOMMENDATION

DFAS should ensure that this entry is made. Also, as mentioned in the initial audit report, DFAS should include all of the Treasury Division's computer hardware and software needs, including upgrades, in its budget. All computer hardware and software purchases should be reviewed and approved in advance by the TRC. The computers and software purchased should be appropriately recorded as City assets. In addition, per the Government Finance Officers Association's Governmental Accounting, Auditing, and Financial Reporting (GAAFR) manual, "...internal-use computer software should be capitalized as an intangible capital asset and amortized (normally on a straight-line basis) over its anticipated useful life." The GAAFR further states that, "Capitalizable costs include external direct costs of materials and services consumed in developing or obtaining internal-use software, payroll and payroll-related costs devoted directly to the project, and interest costs incurred during development." As a result all internal use software with an acquisition cost of \$1,000 or greater should be capitalized in the City of Albuquerque's Comprehensive Annual Financial Report Statement of Net Assets.

EXECUTIVE RESPONSE FROM DFAS

"DFAS concurs. Due to an oversight the reclassification did not occur. DFAS accounting division made the correcting entry on May 30, 2003 to capitalize the software, and will capitalize all future software purchases Citywide as required. DFAS will ensure that all future hardware and software purchases are approved by the TRC and the ISC, as applicable."

RECOMMENDATION NO. 2:

Transactions relating to projects financed by bond proceeds do not always have adequate supporting documentation. A sample of sixty-eight transactions was reviewed to determine if adequate documentation was available to support the expenditure of bond proceeds. Five of the transactions reviewed were not adequately supported. All five were for property requisitioned from Parks and Recreation Department (PRD) inventory. PRD does not maintain historical unit cost information. Therefore, it was not possible to manually calculate the cost of the inventory items to verify the

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accuracy of the transactions. If transactions are not supported by adequate documentation, it is difficult to determine if they are valid.

We recommended that the Parks and Recreation Department should ensure that all transactions financed by bond proceeds are properly supported. PRD personnel should research the inventory tracking system to determine if it can generate reports showing the actual cost when an item is requisitioned from inventory.

ACTION TAKEN

This recommendation has been fully implemented. Parks and Recreation management provided documentation from their accounting system that supported a new sample of transactions that we selected.

Xc: Audit Committee Members
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Jay Czar, CAO
Gail Reese, Chief Financial Officer
Mark Sanchez, Director, Council Services Department
Lou Hoffman, City Treasurer, DFAS
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